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## **Indonesia**

### **Sugar**

### **Annual Report**

### **1999**

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#### **Report Highlights:**

With the end of state trading and distribution of sugar, the future of Indonesia's sugar industry will be determined by farmer's net returns from planting cane (competing with other crops). Improvement of milling efficiency (especially the state mills) and international sugar prices will also influence the survival of the industry. Due to weather problems and increased input costs, production in MY1999 has slumped to an estimated 1.5 mmt. Although MY1999 consumption is estimated to decline to 2.6 mmt due to weakened consumer buying power, competitive world market prices and trade liberalization will lead imports to reach 1.5 mmt. Expecting continued stable/improved growing conditions toward in 1999, MY2000 production is forecast to increase to 1.9 mmt. The MY2000 forecast for consumption is increased to 2.9 mmt but imports are forecast to decline substantially to 500,000 mt.

Jakarta [ID1], ID

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## General Summary

As of September 2, 1998, the National Logistics Agency's (Bulog) monopoly control over sugar has been eliminated. Private traders are free to import sugar at zero duty and market it domestically. Declining local sugar prices and increased imports of sugar at lower world market prices has raised the issue of imposing an import duty on sugar. To date the GOI is holding to its IMF commitment of duty free imports. There are indications that besides the 2.5 percent sales tax (PPH-Pajak Penghasilan), the 10 percent value added tax (VAT) is being more widely imposed on imports.

Due to the long dry season in 1997, the estimated of cane production for MY1999 (May 98-April 99) is reduced to almost 27.0 mmt (down 2.7 percent from previous estimate of 27.8 mmt, and 3.4 percent lower than the MY1998 level). The forecast for MY2000 cane production is 27.3 mmt. Little expansion in area is anticipated but crop management is expected to improve. Cane yields in MY2000 are expected to increase from 72.0 mt/ha to 72.7 mt/ha.

Crop management has suffered in the last year lowering 1999 cane recovery rates from 7.8 percent in 1998 to 5.6 percent. The industry expects better farming practices this year and forecast the cane recovery rates to increase to 7.0 percent in 2000. The decline in area harvested combined with drought and problems in fertilizer distribution during the second half of 1998 resulted in the decline of the estimated 1999 sugar production from 2.2 mmt (the level in 1998) to 1.5 mmt. Improved cane quality coupled with more efficient cane crushing is expected to increase sugar production to 1.9 mmt in 2000.

The persistent economic crisis and high sugar prices resulting from the depreciation of the currency have lowered 1999 sugar consumption to 2.6 mmt, over 15 percent lower than the previous estimate of 3.15 million tons. Assuming more stable economic and political conditions after the general election in June 1999, Post increases 2000 sugar consumption to a slightly higher level of 2.9 mmt.

Trade liberalization has increased sugar imports for MY1999 to a total of 1.5 mmt, consisting of 718,000 tons raw and 203,000 tons refined sugar. Major suppliers were Thailand (57%) and Australia (26.5%). For the marketing year 2000, imports are forecast to drop to 0.5 mmt on the presumption that domestic production will increase and remain price competitive to imports.

The level of ending stocks for 1998 was 520,000 tons. Due to lower buying power during the crisis and high carry over stocks owned by Bulog, stocks are estimated to increase to 920,000 mt in 1999. If the economic recovers somewhat and the world sugar price remains low, stocks at the end of marketing year 2000 are forecast to fall to 420,000 mt. With the liberalization of sugar trade and distribution, it is expected that the supply/demand situation will be more market driven.

Despite potential areas available for investment, the current political situation inhibits investors. Development/improvement of existing sugar industries is also on hold. The Minister of Forestry and Plantation (Decree of the Ministry of Forestry and Plantation No. 728/Kpts-II/1998, dated November 9, 1998) has allocated some (unproductive) forest areas for the development of sugar plantations. However, in an attempt to more equally distribute land ownership, the decree limits a company or a group of companies, in shifting of forest areas into sugar plantation to 60,000 hectares in one province and 150,000 hectares nationwide.

### Sugar Cane for Centrifugal

PSD Table						
Country:	Indonesia					
Commodity:	Sugar Cane Centrifugal					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1997		05/1998		05/1999
Area Planted	400	400	400	400	0	390
Area Harvested	380	386	380	375	0	375
Production	27100	27954	27750	27000	0	27300
TOTAL SUPPLY	27100	27954	27750	27000	0	27300
Utilization for Sugar	27100	27954	27750	27000	0	27300
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	27100	27954	27750	27000	0	27300

## Centrifugal Sugar

PSD Table						
Country:	Indonesia					
Commodity:	Sugar					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		05/1997		05/1998		05/1999
Beginning Stocks	559	559	520	520	0	920
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	2014	2190	1800	1500	0	1900
TOTAL Sugar Production	2014	2190	1800	1500	0	1900
Raw Imports	500	718	700	700	0	200
Refined Imp.(Raw Val)	1100	203	400	800	0	300
TOTAL Imports	1600	921	1100	1500	0	500
TOTAL SUPPLY	4173	3670	3420	3520	0	3320
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	0	0	0	0	0	0
Human Dom. Consumption	3300	3150	3150	2600	0	2900
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	3300	3150	3150	2600	0	2900
Ending Stocks	873	520	270	920	0	420
TOTAL DISTRIBUTION	4173	3670	3420	3520	0	3320

## Production

Due to its fertile land and previous government policies which encouraged concentration here, Java island (with 46 state sugarmills and 4 private mills) contributes over 70 percent of total Indonesia cane sugar production. Sugar production in the last several years has been on a downward trend as a result of tight competition with other commodities, particularly rice.

Government policies encourage rice production. With a relatively high floor price and low interest credits, rice is making cane planting less attractive, especially on Java. The policy goal of shifting sugar production to the islands off of Java continues, however, due to the economic crisis the progress is slow. With five private sugar mills operating in the area, Lampung (southern Sumatra) has become the second largest sugar producer, producing around 335,000 mmt per year (approximately 15 percent of total production).

Due to the effect of the long drought in 1997 and increased fertilizer and pesticide prices during the second semester of 1998, the MY1999 harvested in Indonesia is lowered to 375,000 hectares, around 1.3 percent below the previous estimate and 2.9 percent lower than the 386,000 hectares harvested in 1998. Assuming more stable conditions after the election in June 1999, Post forecasts cane area planted and harvested in 2000 to reach 410,000 hectares and 385,000 hectares respectively. Cane production in 1999 is revised down to 27.0 mmt due to lower area and lower cane yields which reflect the effect of the long drought in 1997 and problems in fertilizer distribution and high pesticide prices.

The cane sugar production estimate for 1999 is revised downward from 2.2 mmt in 1998 to 1.5 mmt due to less cane milled and lower cane quality. Assuming that the political and economic situation becomes stable or better toward the end of 1999 or early 2000, Post predicts that farmers will be more enthusiastic about managing their cane, producing higher cane quality in MY2000 (cane yield may reach 72.8 mt/ha compared to 72.0 mt/ha in MY1999). For MY2000, due to pressures from other crops, planted area is forecast to decline slightly but harvested area should be about the same as 1999. With improved cane quality and more efficient milling, sugar rendement is forecast to increase from 5.6 percent in 1999 to 7.0 percent in MY2000. Sugar production is forecasted to reach 1.9 mmt in MY2000.

Due to the ongoing economic crisis and problems with agricultural inputs during the early stage of the growing season, FAS/Jakarta lowers the estimate of the cane yield of 1999 to 72.0 mt/ha, slightly lower than the level in 1998 which was reached 72.4 mt/ha. Expecting conditions to normalize, Post forecasts cane yields to increase to 72.8 mmt/ha in MY2000.

### **Consumption**

Government and trade sources indicate that due to lower consumer buying power during the ongoing economic crisis and high sugar prices in rupiah terms, the estimated annual per capita consumption during MY1999 is estimated to decline from 15.6 kg (MY1998) to 12.7 kg. Post lowers the estimate of total domestic consumption from 3.2 mmt to 2.6 mmt, an over 15 percent decrease from year-ago levels. With the end of the government's artificially high prices, competition from cheaper imported sugar is resulting in declining sugar prices. Rebounding food industries toward the end of 1999 and early 2000 lead Post to forecast the total consumption for MY2000 will be 2.9 mmt (per capita sugar consumption increase to 14.0 kg).

## Prices

Domestic sugar prices are declining due to the end of government (Bulog) controls on prices and pressures from imports. Current wholesale prices ranges from Rp. 2,000 to Rp. 2,200/kg (retail prices around Rp. 3,000/kg). The price of imported sugar is reportedly around US\$200 to US\$210/mt (CNF) or wholesale price Rp. 2,160/kg at current exchange rates. Prices in rupiah terms have shown increases but due to the major depreciation of the currency, in dollar terms the prices have actually declined.

## Stocks

Although officially Bulog is no longer involved in importing and distributing sugar, currently they manage stocks of around 540,000 mt (end of March 1999). FAS/Jakarta estimates the year-ending stock levels of 1999 at 920,000 mt - higher than the normal two-month supply level of approximately 500,000 mt due to large imports and lower consumer purchasing power. MY2000 stocks are forecast to decline to 420,000 mt, more in line with limited stock holding by the private sector.

## Policy

Although sugar distribution is liberalized, prices remain high (particularly in remote areas). One reason is limited distribution to remote areas. For security reasons, many traders are afraid to keep large stocks and/or transport their sugar to outer regions. To have the commodities better distributed, effective immediately, the government through the Minister of Industry and Trade decree No. 505/MPP/KEO/10/1998, dated October 29, 1998, decided that the entire granulated sugar production belonging to PT. Perkebunan Nusantara/PT. Rajawali Nusantara Indonesia (state sugarmills) can be sold directly to the market by giving priority to cooperatives, small-and medium-scale businesses. This has reportedly helped somewhat, but high prices in remote areas continue.

## Trade

According to official trade data, total sugar imports in MY1998 (May97-April98) reached 921,000 mt. Around 720,000 mt of the total imported sugar was raw sugar and 200,000 mt refined sugar. Thailand was the main supplier, shipped around 525,000 mt of sugar, including, 392,500 mt of raw sugar and 132,890 tons of refined sugar. The second largest supplier was Australia with around 245,000 mt of raw sugar. Preliminary sugar import volume for MY1999 reportedly by Bulog to reach over 1.0 mmt with the total estimated at 1.5 mmt.

The heavy flow of imported sugar has depressed local sugar price. The Indonesian Sugar Producers Association (AGI-Asosiasi Gula Indonesia) and the Federation of Farmer Groups (HKTI-Himpunan Kerukunan Tani Indonesia) believe the government should impose an import duty on imported sugar (around 60 to 65 percent). However, the Minister of Industry and Trade has reportedly responded that the government will be consistent with its trade liberalization policy and will not be imposing an import duty on imported sugar. There are indications that besides the 2.5 percent sales tax (PPH-Pajak Penghasilan), the 10 percent value added tax (VAT) is being more widely imposed on imports.

Export Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	Jan-Dec		
Exports for	1997		1998*
U.S.	0	U.S.	0
Others		Others	
Rep. of Korea	6	Rep. of Korea	6
Total for Others	6		6
Others not listed	0		0
Grand Total	6		6

\*: Data are for Jan-Oct 1998 only.

Import Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	Jan-Dec		
Imports for	1997		1998*
U.S.	0	U.S.	14
Others		Others	
Thailand	706	Thailand	286
Australia	243	Australia	90
India	122	Brazil	57
Germany	40	Korea	27
Brazil	39	Malaysia	22
Korea	26	Germany	9
Singapore	12	Singapore	9
Netherlands	6	United Kingdom	8
Belgium & Lux.	3		
France	2		
Total for Others	1199		508
Others not listed	30		30
Grand Total	1229		552

\*: Data are for Jan-Oct 1998 only.

**Sugar Cane Production**

Composition of Cane Sugar Production by Province  
 Area, Production & Share 1/  
 Estimate by Government of Indonesia for 1998

Island/ Province	Area Harvested (1,000 Ha)	Production (1,000 Ton)
North Sumatra	14	86
South Sumatra	27	63
Lampung	60	344
Sumatra	101	493
West Java	26	128
Central Java	62	250
East Java	180	1,159
Java	274	1,561
South Kalimantan	11	30
Kalimantan	11	30
South Sulawesi	4	16
North Sulawesi	18	73
Sulawesi	22	89
INDONESIA	408	2,173

1/ Estimate Figures, Directorate General of Estate Crops, Ministry of Agriculture.

Preliminary (Revised) 1997 and 1998 Cane Sugar Production by Month  
(in 1,000 Metric Ton)

Month	Production	Month	Production
1997		1998	
Jan	3.3	Jan	0.5
Feb	10.5	Feb	149.2
Mar	17.6	Mar	15.1
Apr	54.5	Apr	13.5
May	174.6	May	17.3
Jun	357.9	Jun	505.6
Jul	370.0	Jul	378.7
Aug	580.1	Aug	511.7
Sep	335.1		
Oct	215.9		
Nov	45.2		
Dec	2.0		
Total	2,166.7	Total	1,591.6

Source: Economic Indicator, Central Bureau of Statistics, Indonesia.

### Sugar Prices -- Wholesale and Retail

Average Monthly Sugar Wholesale Prices 1/  
(Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1996	1300	1350	1350	1350	1350	1350	1380	1360	1360	1360	1360	1360
1997	1360	1360	1360	1360	1360	1368	1390	1390	1390	1390	1390	1390
1998	1625	1675	1800	1950	2100	2100	3500	3900				
% chg	19	23	32	43	54	54	152	181				

Source: Central Bureau of Statistics (CBS).

1/ Prices apply to Sugar SHS I in Jakarta market. Pct refers to year-to-year percent change.

Note: data for September through December 1998 are not available yet.

Average Monthly Sugar Retail Prices 1/  
(Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1996	1478	1478	1450	1489	1500	1500	1500	1500	1500	1500	1500	1500
1997	1516	1545	1545	1545	1595	1595	1594	1594	1594	1599	1600	1600
1998	1953	2028	1751	2226	2439	2492	2841	3848	3977	3734	3550	3511
% chg	29	31	13	44	53	56	78	141	149	134	122	119

Source: Central Bureau of Statistics (CBS).

1/ Prices apply to Sugar SHS I in Jakarta market. Pct refers to year-to-year percent change.

Exchange Rate: Rupiah/US\$ on Period Month Ending Basis

<u>1995</u>	<u>1996</u>	<u>Jul97</u>	<u>Sep97</u>	<u>Dec97</u>	<u>Jan98</u>	<u>Apr98</u>	<u>Jul98</u>	<u>Oct98</u>	<u>Dec98</u>	<u>Feb99</u>	<u>Mar99</u>
2308	2383	2599	3275	6250	10250	7970	13000	7750	8068	8730	8685

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